STATE OF WASHINGTON

DEPARTMENT OF SOCIAL AND HEALTH SERVICES

Medical Assistance Administration, P.O. Box 45550, Olympia, Washington 98504-5500

June 16, 2003

TO: **Medical Assistance Administration (MAA) employees and stakeholders**

FROM: **Doug Porter, Assistant Secretary**

SUBJECT: **FINAL MAA BUDGET FOR 2003-2005**

It's been a long road to this budget, but there are both good news and new challenges for MAA in the new operating budget. On the positive side, our budget totals for the new biennium are a success story. The Legislature stood by its longstanding commitment to Medicaid and avoided the temptation to drastically reduce eligibility levels or to slash programs. Our overall funding level will increase, not drop – a 1.4 percent increase, to $7.3 billion.

This is a reflection in part of the increasing cost of health care everywhere. But it is also clearly recognition by the budget makers that MAA as an organization presented a credible case for what we do, where our money goes, how our clients are served, and how we make sure MAA dollars are spent effectively. Everyone in MAA contributed to that success, and you deserve to be applauded.

Three other successes: 1) As requested in the Governor's budget request, the Legislature appropriated funding to continue health coverage for children in families up to 250% of poverty. 2) Secondly, we were able to find a way to preserve prenatal coverage for immigrants and undocumented women by moving them to the federal State Children's Health Insurance Program (SCHIP) program, shifting more of the cost to federal funds and saving the state money without dropping this coverage. 3) Finally, legislators restored the Healthcare for Workers with Disabilities (HWD) program to the budget. This affects fewer than 100 of our clients – but now they will not have to choose between Medicaid coverage and staying on the job. HWD lets them do both.

MAA still has some challenging assignments, and the hard work on them begins now:

Hospitals: Beginning July 1, we will eliminate the Medically Indigent program, which reimbursed hospitals, physicians and transportation providers for what would otherwise have been uncompensated care. We will still use some other funding mechanisms, such as Disproportionate Share (DSH) funds to partially offset the reduction for hospitals. Those funds will mean about a $60 million cut, as opposed to a $110 million cut. The state's hospitals resisted this proposal, and it will be harder for some smaller, rural hospitals operating on very narrow margins. But the Lewin Report and other analysts felt this section of the health-care system could absorb such a cut. In addition, other budget proposals also add back some of the $110.6 million cut by increasing other hospital grant programs, including several million dollars specifically for small rural hospitals. Hospitals also were assured that the trauma-funding program would be continued; that program reimburses hospitals and providers for the extra investment and expenses involved in being ready to treat trauma patients. No funds were provided to reduce the impact to physicians or transportation

providers. Another impact: County jails will now have to pick up the cost of hospital treatment for inmates who were able to qualify for MI funds in certain cases.

Benefit changes: We are already moving quickly to establish new coverage parameters for adult dental care. The Legislature expects the dental change to save $22.7 million (approximately 25 percent of the amount spent on those services over the past two years), and we hope to have the restructured benefit in place by August 1. Every month's delay in implementing this restructured benefit results in a loss of more than $1 million, so time is paramount. We are notifying providers the week of June 16 of our proposed changes, asking for their feedback prior to June 30. Vision and DME coverage will not change, but those programs will add a $2 co-pay for services and equipment costing between $25 and $50, and a $3 co-pay for services and equipment costing more than $50. These co-pays – the maximum allowed by the federal Medicaid program – will together raise about $1.8 million. The hearing benefit will not change. Children's coverage will not be affected by any of these changes. In July of 2004, the budget requires MAA to adopt cost-containment and utilization strategies that will trim 5 percent from the DME budget. This saving would be $4 million.

Prescription drugs: The budget authorizes MAA, the Health Care Authority and the Department of Labor and Industries to consolidate their drug purchasing with a joint list of preferred drugs in at least 16 therapeutic classes prioritized for state-agency purchase. This work is already under way in a project headed by Dr. Jeff Graham. The budget assumes a savings of more than $46 million over the biennium. As many of you know, a prescription drug bill also passed the Legislature in the final days. This legislation provides for joint drug purchasing, reinforces part of the preferred drug list project already in the works, will establish a pharmacy information service to help consumers find discounts, and directs MAA to apply for a senior pharmacy discount waiver from the federal government. Incidentally, this bill originally would have ended the Therapeutic Consultation Service (TCS). But as passed, the references to TCS were eliminated.

Increased eligibility verification: The budget sets down a series of steps to tighten eligibility verification, in particular requiring DSHS to reconfirm clients' eligibility every six months. These changes are expected to result in about 4,800 fewer persons from qualifying for medical assistance and to remove approximately 19,000 persons who would otherwise have stayed on the rolls. The six-month eligibility reviews will be issued on a monthly basis, beginning with clients whose eligibility in Medicaid begins in July 2003. Clients will have 45 days to reply, and failure to return the verification will result in disenrollment. Anticipated net savings are $23 million for the biennium.

Children's premiums: The budget will require families with incomes above 100 percent of Federal Poverty Level (FPL) to begin paying monthly premiums for their child's medical, dental and vision coverage beginning in January of 2004. Families between 100 and 150 percent of FPL would pay $15 per child per month; families up to 200 percent of FPL would pay $20 per child per month. Families between 201 and 250 percent (SCHIP program) would pay $25 per child per month. Premiums would be capped at three children per family. The premiums, which are one-and-a-half times the amounts proposed in last summer's Medicaid reform waiver application, will not exceed 3 percent of a family's income. Implementation will hinge on obtaining federal approval. Anticipated savings for the state are $67 million.

GAU eligibility: Under the budget, DSHS will put tighter eligibility controls on General Assistance-Unemployable (GAU) clients, requiring them to demonstrate that they remain medically or mentally disabled and still qualify for GAU cash grants and Medicaid coverage. Clients who don't verify eligibility will be disenrolled. Anticipated savings: $7.1 million.

Healthy Options: The budget will allow only a 1.5 percent increase in managed care rates in the calendar year 2004 procurement. Funding is provided for an increase of up to 5.0% for calendar year 2005.

Newborn screening: The Legislature added $424,000 to MAA's budget to pay for five additional tests on newborns. The tests were recommended by the State Board of Health, which said they can detect disorders that can cause mental or motor retardation, blindness, hearing loss, physical abnormalities and/or death if not diagnosed quickly.

Nurse consultant service: The budget authorizes MAA to set up a toll-free telephone service that would provide consultations for clients with questions about conditions or medical treatments. No funding was assigned to this project, although MAA is already operating a similar hot line for some 150,000 clients under the Disease Management program. The Care Coordination Section of the Division for Program Support will look at several alternatives, including that model, to see what can be established.

AIDS coverage: The state will continue to pay private insurance premiums for people with HIV and AIDS, but the Evergreen Health Insurance Program will transfer from MAA to the Department of Health, where other AIDS-related programs are centered.

Detailed information about the final budget can be found at:

http://leap/leg.wa.gov/leap